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SUBJECT: \$76 MILLION OF WORLD BANK MONEY TO BE THROWN AWAY?

REF: 09 ASMARA 0017

Classified By: CDA Melinda Tabler-Stone for reason 1.4(d).

¶1. (C) The World Bank regional director responsible for the Horn of Africa postponed a scheduled mid-February meeting in Asmara to discuss whether or not Eritrea plans to accept \$76 million in grant funding, according to World Bank acting country director Samuel Eyasu (protect). The minister of finance has been out of the country for more than a year, with no one with any real authority at the helm, he said. Hoping to speak to the Eritrean government's (GSE) true decision makers, the regional director plans to return mid-to-late March to meet with ruling PFDJ political leader Yemane Gebreab and Presidential Office Director Yemane Ghebremeskel. He received assurances from both offices that they will meet with him. Eritrea's World Bank office, down to eight employees, has not had a designated country directory since March 2009, and has not funded a project in Eritrea since 2005.

¶2. (C) Because World Bank considers Eritrea a highly indebted poor country (HIPC) without the capacity to repay a loan, the funding is offered as a grant, Samuel said. World Bank allocated \$65 million in regular and \$11 million in emergency grant funding for Eritrea during the three-year development cycle ending June 2011. In June 2008, projects totaling \$30 million were approved by the World Bank board, but were rejected by GSE (reftel). All HIPC countries receiving grants must follow a one-year International Monetary Fund (IMF) program. The program stipulates conditions such as freeing economic markets (including fuel) and foreign exchange rates, which Eritrea is thus far unwilling to accept.

¶3. (C) Though it is not unusual for a HIPC country to balk initially at IMF conditions, Eritrea is the only country in the world still unwilling to sign on to the IMF program, Samuel said. The World Bank regional director hopes to get a final answer from Eritrea on his upcoming visit, but World Bank does not anticipate a change of heart. The result of the meeting "will determine the future of this office," Samuel said. If Eritrea does not accept the IMF conditions, \$76 million in funding will be allocated to another country. The only way the office would stay open is if World Bank is allowed to administer trust funds from countries like Norway and Japan, which do not impose conditions, Samuel said. Tabler-Stone